

<b>STATE OF MONTANA</b> <b>COMPLIANCE SUPPLEMENT FOR AUDITS OF</b> <b>LOCAL GOVERNMENT ENTITIES</b>	REF: SD-1
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<b>PROGRAM/SUBJECT:     School Districts - Budgets</b>	

**INFORMATION CONTACTS:**

Montana Office of Public Instruction  
Denise Ulberg                      (406) 444-1960

	<u>Budgets</u>	<u>Budgets</u>	<u>Enrollment</u>
Names:	Janelle Graybeal	Kathleen Warner	Nica Carte
Phone Numbers:	(406) 444-3249	(406) 444-9852	(406) 444-4401

**OPI prepares an annual “Audit Letter” that answers frequently asked questions and lists areas of particular concern to OPI. The annual letter, which is generally available in June, can be found on OPI’s website: <http://www.opi.mt.gov/> (choose School Finance on the dropdown, then click on “Audit Information” tab ). <http://www.opi.mt.gov/PUB/PDF/SchoolFinance/Audit/2007Auditltr.pdf> This “Audit Letter” is referenced in several of the following compliance requirements and suggested audit procedures.**

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## COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

### GENERAL BUDGET REQUIREMENTS – continued:

#### 2. Compliance Requirement: Budgeted Funds

- A budget must be adopted for the following funds: (MCA 20-9-201)
  - a. general fund,
  - b. transportation fund,
  - c. bus depreciation reserve fund,
  - d. tuition fund,
  - e. retirement fund,
  - f. debt service fund,
  - g. building reserve fund,
  - h. adult education fund,
  - i. nonoperating fund (applicable to only nonoperating districts, see MCA 20-9-505), and
  - j. any other funds designated by the legislature:
    1. Technology acquisition and depreciation fund (MCA 20-9-533)
    2. School flexibility fund (MCA 20-9-543)

#### Suggested Audit Procedure:

NONE

OPI monitors each school district's budget, including those funds for which a budget must be adopted.

#### 3. Compliance Requirements: Expenditure Limitations

- Expenditures must be limited to the total amount that is appropriated in each fund's final budget. (MCA 20-9-133(2)) **Exception** - If a district incurs a legal bonded debt payment after the final debt service fund budget for the current fiscal year has been adopted, and if the payment is required for the current fiscal year, payment in the current fiscal year is allowed if money is available. (MCA 20-9-133(3))
- The expenditure limitation, at any time during the school fiscal year, for a non-budgeted fund is the amount of cash balance of the non-budgeted fund. (MCA 20-9-210))
- Transactions recorded to correct expenditures reported in a prior year shall be charged against the current year's budget. A budget transfer may be made from other appropriation item(s) to provide budget authority for corrections of prior period expenditure errors which result in a net reduction to beginning fund balance. **Prior period adjustments must be within the total budget limit imposed by 20-9-133.** (MCA 20-9-209(2), ARM 10.10.305))

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **3. Compliance Requirements - continued:**

- The district clerk is required to make available revenue and expenditure reports to the board of trustees on a periodic basis.
  1. For budgeted funds, the recommended format for revenue and expenditure reports is:
    - (a) The revenue budget report should show by revenue account the amount budgeted by fund for each revenue account, the amount collected to date, and the amount remaining to be collected.
    - (b) The expenditure budget report should show the amount budgeted by line item, function, or in total, the amount expended to date and the amount of budget authority remaining.
  2. For nonbudgeted funds, revenue and expenditure reports should include, at a minimum, the amount collected to date for each revenue account and the amount expended to date by expenditure line item or expenditure function category.  
(ARM 10.10.505)

#### **Suggested Audit Procedures:**

- Verify that the district clerk is periodically providing the required budget reports to the board of trustees, and that the board is monitoring the spending and receipts of the district.
- Compare year-end actual expenditures for each budgeted fund to the budget appropriations for the fund and determine that expenditures did not exceed the approved budget appropriations.  
(**Note 1:** Elementary district budget to actual expenditures and high school district budget to actual expenditures for each budgeted fund should be reviewed separately, except for K-12 districts, which adopt a single K-12 budget for each budgeted fund.)

(**Note 2:** As the funding agency for school districts, OPI has requested that all budget overdrafts be cited in a compliance finding. OPI must obtain a response to the overdrafts from the district, and determine that internal controls will be in place to avoid future overdrafts.)

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **4. Compliance Requirements:**

#### **Budget Amendments**

- A budget may be amended for the following reasons: (MCA 20-9-161)
  - a. An increase in enrollment of an elementary or high school district that is beyond what could have been reasonably anticipated at the time of the adoption of the budget. Because of the enrollment increase, the district's budget for any or all of the regularly budgeted funds does not provide sufficient financing to properly maintain and support the district for the entire current school fiscal year.
  - b. The destruction or impairment of any school property necessary to the maintenance of the school by fire, flood, storm, riot, insurrection, or act of God, to an extent rendering school property unfit for its present school use.
  - c. A judgment for damages against the district issued by a court after the adoption of the budget for the current year.
  - d. An enactment of legislation after the adoption of the budget that imposes an additional financial obligation on the district.
  - e. The receipt of:
    1. a settlement of taxes protested in a prior fiscal year,
    2. taxes from a prior school fiscal year as a result of a tax audit by the Department of Revenue or its agents,
    3. delinquent taxes from a prior school year, and
    4. a determination by the trustees that it is necessary to expend all or a portion of the taxes received under e.1, 2, or 3, for projects that were deferred from a previous budget of the district.
  - f. Any other unforeseen need of the district that cannot be postponed until the next school year without affecting the safety of the students and district employees or the educational functions of the district.
- When a budget amendment is required as a result of an increase in enrollment (see (a) above), the trustees shall submit a petition to the Superintendent of Public Instruction. It must be signed by a majority of the trustees. If the petition is approved, the trustees may adopt a resolution for the budget amendment. (Note: The trustees may qualify for an increased state payment for direct state aid if the budget amendment is adopted.) The district may not adopt an amendment if it will cause the district to exceed the maximum general fund budget, as adjusted by OPI. An amendment as a result of an increase in enrollment may not be adopted until after October 1. (MCA 20-9-162, 20-9-163, and 20-9-166)
- When a budget amendment is required as a result of (a) through (f) above, it may be approved by the trustees through a resolution. The trustees must proclaim the need for the amendment by a majority vote, and a copy of the proclamation must be sent to the county superintendent and the board of county commissioners. (MCA 20-9-162(1) and (2))



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **5. Compliance Requirements - continued: General Fund Reserves**

- **Excess Reserves:** The 10% limitation referenced above will not apply when the amount in excess of the limitation is equal to or less than the unused\*\* balance of any amount received: (MCA 20-9-104(5))
  - (a) in settlement of tax payments protested in a prior school fiscal year;
  - (b) in taxes from a prior fiscal year as a result of a tax audit by the Department of Revenue or its agents; and
  - (c) in delinquent taxes from a prior school fiscal year.
 (\*\*“Used” means (a) used for budget amendments, (b) used to fill the operating reserve back to 10%, or (c) used to fund the budget through reappropriation.)
- The excess reserves may be appropriated to reduce the BASE budget levy, the over-BASE budget levy, or the additional levy for the general fund that is provided for in MCA 20-9-353. (MCA 20-9-104(3))  
**(Note:** Refer to the portion of this compliance supplement under General Fund Budget which addresses the BASE Funding Program for Schools for further information concerning the BASE.)

#### **Suggested Audit Procedure:**

- Obtain a copy of the school district’s most recent Trustees’ Financial Summary (TFS). Review documentation relating to the additions to the general fund excess reserves which are found under revenue codes 1117, 1118, and 1190. Verify that all additions represent valid current year receipts of prior year protested/delinquent taxes or tax audits. Documentation must be adequate to prove that receipts of protested and delinquent taxes were due before June 30 of the prior year. **(Note:** Penalties and interest charged to the taxpayers are valid additions. Interest earned on the holding of excess reserves is not a valid addition to excess reserves.)  
**(Note:** A listing of districts with excess reserves, along with the changes in excess reserves, is included in Appendix G of OPI’s annual Audit Letter.)

#### **6. Compliance Requirement: Fund Balance Reappropriated**

- Any portion of the end-of-the-year general fund balance that is not reserved (10% limitation) or reappropriated to reduce the BASE budget levy, or the over-BASE budget levy provided for in MCA 20-9-353 is considered to be fund balance reappropriated and must be used for property tax reduction as provided in MCA 20-9-141(1)(b). (MCA 20-9-104(4))

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **Suggested Audit Procedure:**

- Review prior period revenue adjustments to ensure that all such adjustments are valid and are not a result of the school district’s attempt to “save” fund balance from reappropriation. Inspect documentation for these adjustments for indications of prior year encumbrances, accrued expenditures, or year-end warrants that the school district may have recorded at the end of the previous year, with the intention of canceling in the current fiscal year. (**Note:** If the fund balance was artificially lowered to avoid reappropriation, resulting in increased levies and an overpayment of GTB, the district must refund the overpayment to OPI.)

#### **7. Compliance Requirements:**

#### **Budget Transfers**

- Whenever the appropriated amount of an item of a budgeted fund is in excess of the amount actually required during the school year for that item, the trustees may transfer any of the excess appropriation amount to any other appropriation item of the same budgeted fund. (MCA 20-9-208(1))
- Unless specifically restricted by statute (see below), transfers may be made from one budgeted fund to another budgeted fund of the same district whenever the trustees determine, in their discretion, that the transfer of funds is necessary to improve the efficiency of spending within the district or when an action of the trustees results in savings in one budgeted fund that can be put to more efficient use in another budgeted fund. (MCA 20-9-208(2))  
(**Note:** Cash must follow a budget transfer to another fund. See Compliance Requirement No. 9 “Cash Transfers” for additional information.)
  - a. Transfers may not be made with funds approved by the voters or with funds raised by a nonvoted levy unless the transfer is within or directly related to the purposes for which the funds were raised.
  - b. Unless otherwise authorized by a specific statute, transfers from the general fund to any other fund and transfers to the general fund from any other fund are prohibited. (**Note:** See Compliance Requirements No. 9 “Cash Transfers” and No 10 “Fund Closures”, below, for allowable transfers to and from the general fund.)
  - c. Before a transfer can occur, the trustees shall hold a properly noticed hearing to accept public comment on the transfer.  
(MCA 20-9-208(2))
- Authorized transfers shall be entered upon the permanent records of the district.  
(MCA 20-9-208(3))



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **7. Compliance Requirements – continued:**

- Within 30 days of approving a transfer, the trustees shall notify the state superintendent, county superintendent, and county treasurer in writing of the amount of budget authority transferred, the purposes for which the amount transferred will be used, and the funds affected. (ARM 10.10.320(11))
- When the trustees transfer cash from one budgeted fund to another budgeted fund (see Compliance Requirement No. 9, below), the trustees may also transfer budget authority up to the amount of the cash transfer. (ARM 10.10.320(10))

#### **Suggested Audit Procedures:**

- If budget transfers were made between funds, determine that a public hearing was first held on the proposed transfer.
- Verify that no budget transfers were made to or from the general fund, unless the transfer was specifically authorized by statute or administrative rule.
- If a transfer was made with funds approved by the voters or with funds raised by a nonvoted levy, review to verify that the transfer was within or directly related to the purposes for which the funds were raised.
- Obtain and review evidence that, within 30 days of approving a transfer, the trustees notified the state superintendent, county superintendent, and county treasurer in writing of the amount of budget authority transferred, the purposes for the transfer, and the funds affected.

#### **8. Compliance Requirement:**

#### **Encumbrances**

- All appropriations lapse on the last day of the school fiscal year (June 30). However, a school district may encumber the current year budget for the following:
  - a. the cost of uncompleted improvements in progress of construction – a legally binding contract must be signed and effective prior to June 30, or a valid purchase order must be issued by June 30. (**Note:** The amount encumbered may include the entire contract price for the project.)
  - b. the costs of personal property, (including materials, supplies and equipment, but excluding contracts for services) ordered but not received – a valid purchase order must be issued by June 30.
 (MCA 20-9-209; ARM 10.10.101)

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **Suggested Audit Procedure:**

- Obtain a copy of the school district's list of encumbrances. Verify that all, or selected, encumbrances meet the above criteria, and verify that the school district has purchase orders or contracts dated no later than June 30, to support each encumbrance.

## **CASH TRANSFERS AND FUND CLOSURES**

### **9. Compliance Requirements:**

### **Cash Transfers**

- Cash may be transferred between funds only if the transfer is specifically allowed by law or administrative rule. (ARM 10.10.320(1))
- Transfers may be made from one nonbudgeted fund to another nonbudgeted fund whenever the trustees determine that the transfer of funds is necessary to improve the efficiency of spending within the district. (MCA 20-9-208(2)(b)) Any portion of the cash balance in a nonbudgeted fund may be transferred. The trustees must prepare a resolution stating specifically how the transfer will be used to improve efficiency of spending within the district. (ARM 10.10.320(8))
- Trustees are required to hold a properly noticed hearing to accept public comment on a transfer before the transfer can occur, with the exception of the following transfers: (MCA 20-9-208(2)(b); ARM 10.10.320(2))
  - a. Transfers from the general fund to the compensated absences fund to establish and maintain the compensated absences fund, or transfers of excess balance in the compensated absences fund to the general fund (See also MCA 20-9-512);
  - b. Transfers of unused employer contributions for self-insurance group coverage allowed by MCA 2-18-703;
  - c. Transfers from the general fund to the litigation reserve fund and, upon settlement of the litigation, a transfer returning the balance to the general fund under MCA 20-9-515;
  - d. Transfers between the federal impact aid fund and the debt service fund under MCA 20-9-437 & 443;
  - e. Transfers from any fund, except the miscellaneous programs fund, to support an interlocal agreement fund under MCA 20-9-703;
  - f. Closure of district funds to establish a non-operating fund under MCA 20-9-505; and
  - g. Transfers of any portion of the balance of a bus depreciation fund approved by the voters. (See following bulleted item)





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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **CASH TRANSFERS AND FUND CLOSURES – continued**

#### **9. Suggested Audit Procedures- continued: Cash Transfers**

- If cash was transferred from a nonbudgeted fund, verify that the trustees prepared a resolution stating specifically how the transfer will be used to improve efficiency of spending within the district.
- Obtain and review evidence that, within 30 days of approving a transfer, the trustees notified the state superintendent, county superintendent, and county treasurer in writing of the amount of cash transferred, the purposes for the transfer, and the funds affected.

#### **10. Compliance Requirements: Fund Closures**

- Except as otherwise provided by law (see following provisions), whenever the trustees of a district determine that a fund is inactive and will no longer be used, the fund shall be closed by transferring all cash and other account balances to any fund considered appropriate by the trustees, if the fund does not have a cash or fund balance deficit. (MCA 20-9-201(3)) If an inactive fund has a cash or fund balance deficit, the district must resolve the deficit before closing the fund. (ARM 10.10.319)
- The following provisions for the closure of specific funds are found in ARM 10.10.319 and various sections of the Montana Code Annotated, as indicated:
  - a. Pursuant to MCA 20-9-201, when trustees determine that a tuition fund is inactive and will no longer be used, they must close the fund into the miscellaneous programs fund. (MCA 20-9-201(3))
  - b. Pursuant to MCA 20-9-443, when all bond principal, interest, and fees and all SIDs outstanding have been fully paid, the trustees shall close the debt service fund into the building reserve fund, general fund, or technology fund. The district must identify money transferred from the debt service fund using a project reporter code number and track the subsequent uses of the money that are limited by MCA 20-9-443.
  - c. Pursuant to MCA 20-10-147, when all the buses of a district have been sold or otherwise disposed of, trustees may close a bus depreciation reserve fund to any other fund of the district contingent on voter approval.
  - d. Pursuant to MCA 20-9-505, a district entering non-operating status shall close all funds, except the debt service fund and the miscellaneous programs fund, into a single non-operating fund of the district.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **CASH TRANSFERS AND FUND CLOSURES - continued**

#### **10. Compliance Requirements - continued: Fund Closures**

- Trustees may not close a fund into a fund of another school district. An elementary fund must be closed into another elementary fund, and a high school fund must be closed into another high school fund. (ARM 10.10.319) (**Note:** A transfer from the elementary general fund to the high school general fund and visa versa would also be prohibited under MCA 20-9-208)
- The trustees must notify the county treasurer in writing of any fund closure, stating the district fund into which the inactive fund is to be closed. The county treasurer must deposit subsequent receipts on behalf of the closed fund, including subsequent tax receipts, in the fund to which the inactive fund was closed. (ARM 10.10.319)

#### **Suggested Audit Procedures:**

- If a fund is determined to be inactive and closed during the audit period, verify that the cash and other account balances were transferred to the appropriate funds, as provided in law or administrative rule. (If there is no specific provision for the closure of the fund, the transfer may be made to any fund considered appropriate by the trustees.)
- Verify that no funds were closed into a fund of another school district.
- If an inactive fund had a cash or fund balance deficit, verify that the deficit was resolved prior to closing of the fund.
- Obtain and review evidence that the county treasurer was notified, in writing, of the fund closure. Verify that all subsequent receipts on behalf of the closed fund were deposited into the fund to which the inactive fund was closed.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **ENROLLMENT**

#### **Enrollment Overview:**

The “Average Number Belonging” (ANB) means the average number of regularly enrolled full-time pupils physically attending or receiving educational services at an offsite instructional setting from the public school of a district who were enrolled as of the first Monday in October and on February 1st of the prior school fiscal year, or the next pupil-instruction day if that date does not fall on a pupil instruction day. ANB is the key figure in calculating the financial support that a school district will receive under the school BASE Funding Program. An error in the calculation of this figure could have a substantial effect on the revenue derived through the program.

ANB for each district is obtained from the enrollment count reported to OPI on the MAEFAIRS Fall Enrollment Report as of the 1st Monday in October, and the February 1st enrollment count reported to OPI on the MAEFAIRS Spring Enrollment Report. Pre-kindergarten students and students who are 19 on or before September 10 are excluded from the ANB calculation and kindergarten students are included as one-half for ANB purposes. **Effective July 1, 2007,** kindergarten students enrolled in a kindergarten program that provides a minimum of 720 aggregate hours of instruction may be included as full-time for ANB purposes. Students that have been absent for more than 10 consecutive school days may not be included in the enrollment count for ANB purposes, unless the pupil resumes attendance prior to the day of the enrollment count. There is an exception, in that homebound students and students who are confined to a treatment, medical, or custodial facility may be counted as enrolled after the 10th consecutive date if the provisions of ARM 10.20.102(8) are met.

**(Note: Any difference in enrollment reported to OPI or shown on the enrollment records of the district is considered *MATERIAL* to OPI. OPI recalculates ANB using corrected enrollment counts reported in school district audit reports. Based on this information OPI adjusts guaranteed tax base entitlements (GTB), the state per-student funding, the basic entitlement, and sometimes the general fund budget limits. It is important to know that OPI not only lowers funding when ANB drops due to an audit, but they also PAY ADDITIONAL direct state aid for additional ANB reported in an audit.**

In most elementary districts, the individual teachers’ attendance records used within the various elementary schools are summarized by the school building offices. The attendance records at some high school districts, however, may not be sufficient to support the enrollment calculations. The primary difficulty is the fact that students change teachers and classrooms several times a day, each requiring a separate attendance record. This could also be a problem in some junior high schools and middle schools. Most high schools retain individual student attendance records, however, they are often filed in individual student folders at the close of the school year.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **ENROLLMENT – continued:**

#### **Enrollment Overview – continued:**

Despite the type of attendance records used, districts must maintain sufficient documentation to support their enrollment reports that are submitted to OPI. These may take the form of summary attendance records, by day, week, month, quarter, etc. at the various schools, or they may maintain separate student records in some manner that supports their enrollment figures on the count dates. Some form of enrollment documentation must be available at each district in a way that will permit verification of the enrollment reports.

**(Note: OPI would prefer that audit reports and financial review reports of Montana school districts disclose all differences between enrollment reported to OPI and that documented by the school district's records. These should include discrepancies in part-time students, early graduates, and discrepancies in attendance and absences reported to OPI.)**

#### **1.     Compliance Requirements:                             Minimum Pupil Instruction Days & Hours**

- School districts must provide at least the minimum aggregate hours as defined below:
  - a. 360 hours for a half-time kindergarten program or, **effective July 1, 2007**, 720 hours for a full-time kindergarten program (MCA 20-7-117);
  - b. 720 hours for grades 1 through 3; and
  - c. 1,080 hours for grades 4 through 12.  
**(Note: 1,050 aggregate hours of pupil instruction for graduating seniors may be sufficient)**  
 (MCA 20-1-301)
- Kindergarten, grade 1 through 3, and grade 4 through 12 programs must be considered separately for the purpose of computing compliance with minimum aggregate hour requirements. (MCA 20-9-805)

#### **Suggested Audit Procedure:**

- Verify, through review of the school district's records, (such as the school calendar and board meeting minutes) that the district conducted the minimum aggregate hours of instruction required. This item is a significant compliance issue, in that direct state aid payments to the districts will be reduced if required minimums are not met. **As the funding agency for school districts, OPI has requested that non-compliance with this issue be disclosed in an audit finding.**





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## COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

### ENROLLMENT - continued

#### 4. Compliance Requirements - continued: Enrollment Reports

- b. Part-time and full-time enrollment is determined on the hours per year that a student is enrolled, as follows (MCA 20-9-311(4) & (5)):

Grade	Not Enrolled	¼-Time Enrolled	½-Time Enrolled	¾-Time Enrolled	Full-Time Enrolled
K - Half-time	<180 hrs	N/A	360+ hrs	N/A	N/A
K – Full-time	<180 hrs	180-359 hrs	360-539 hrs	540-719 hrs	720+ hrs
1-12	<180 hrs	180-359 hrs	360-539 hrs	540-719 hrs	720+ hrs

(**Note:** Enrollment in a self-paced program or course may be converted to an hourly equivalent based on the hours necessary and appropriate to provide the course within a regular classroom schedule.)

- c. **Effective July 1, 2007:** for a district that is transitioning from a half-time to a full-time kindergarten program, kindergarten enrollment in the previous year shall be counted as full-time enrollment for the purpose of calculating ANB for the elementary programs offering full-time kindergarten in the current year.
- d. When any pupil has been absent, with or without excuse, for more than 10 consecutive school days, the pupil may not be included in the enrollment count unless the pupil resumes attendance prior to the day of the enrollment count, except for the following:
1. homebound students who are receiving instructional services financed by the school district who were in the education program and due to medical reasons, certified by a medical doctor, are unable to be present for pupil-instruction;
  2. students who are confined to a treatment, medical, or custodial facility which does not offer a regular educational program, and who are receiving instructional services financed by the school district.
- (MCA 20-9-311(6); ARM 10.15.101(31); ARM 10.20.102(8))
- e. The enrollment of preschool pupils, as provided in MCA 20-7-117, may not be included in the ANB calculations. (MCA 20-9-311(7))
- (**Note:** A Kindergarten-age pupil (5-years-old on or before Sept. 10) that is receiving services in the Pre-K (Pre-School) program may be counted as a Kindergarten pupil if an Individualized Education Program (IEP) requires the 5-year old to receive instruction and services in a pre-school setting. (See OPI's June "Audit Letter" for additional information))
- f. Students who turned 19 on or before September 10 must be included in the enrollment count, but must then be subtracted from the count for ANB purposes. (MCA 20-1-101(16))



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## COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

### ENROLLMENT - continued

#### 4. Suggested Audit Procedures - continued: Enrollment Reports

- Compare your calculated enrollment count to that reported on the school district's reports to OPI. (Note: The Spring report includes both Fall and Spring counts and is convenient to use when auditing.) **Any discrepancies should be reported in an audit finding. Because of potential impacts on state funding, budgeting and GTB, OPI considers any enrollment difference to be material.**

(**Note:** If a discrepancy is noted between the district's records and reports filed with OPI, please notify OPI at telephone number (406) 444-3024, and then ask the district to submit a revised Fall and/or Spring Enrollment Report to OPI showing the original reported amounts and adjustments.)

#### 5. Compliance Requirement: ANB Increases

A school district may request an increase in regular ANB from the Superintendent of Public Instruction under certain, specified conditions addressed at MCA 20-9-313 & 314. Because OPI monitors and approves increases in ANB in these cases, **there is no need for this item to be audited for compliance.**

#### 6. Compliance Requirement: ANB Increases for Early Graduation

- A school district may request from OPI an increase in regular ANB if a high school district provides early graduation for any student who completes graduation requirements in less than 8 semesters or the equivalent amount of secondary school enrollment. The increase must be established by the trustees as though the student had attended to the end of the school fiscal year and must be approved, disapproved, or adjusted by OPI. In addition ARM 10.20.102 states that the trustees may apply for increased ANB for early graduates who are enrolled as of the first Monday of October as a senior in high school, the seventh semester of secondary school, and complete the graduation requirements prior to the February 1 enrollment count, by filing a request with OPI stating the names of the pupils which were not included in the February 1st enrollment count because they graduated early and the date of graduation. (MCA 20-9-313(6); ARM 10.20.102(10))  
(**Note: OPI has indicated that a student who completes graduation requirements in the 6th semester or less should not be included in the enrollment counts.**)

#### Suggested Audit Procedures:

- Determine if the Spring Enrollment count of the district includes an increase for early graduates (separate line on enrollment report).



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **ENROLLMENT - continued**

#### **Suggested Audit Procedures:**

#### **Preschool Programs**

- Verify that monies available from state equalization aid were not used to support a free preschool program for children between the ages of 3 and 5.
- Verify that parents were not charged for the public preschool program.

#### **9. Compliance Requirement (For Auditor):     Standard Audit Contract Requirements**

- The standard audit contract requires the audit of any school district to include tests to verify the accuracy of the school district's enrollment for the fiscal year(s) being audited as reported to the Office of Public Instruction. It also requires that the audit report contain a supplementary schedule of the district's enrollment as reported to OPI for the fiscal year(s) being audited. The schedule must contain the enrollment both as reported to OPI in the Fall and Spring enrollment reports and as documented by the school district's enrollment records.

#### **Suggested Audit Procedures:**

- Perform enrollment tests as indicated previously in this compliance supplement.
- Prepare a supplemental schedule containing the school district's enrollment both as reported to OPI in the Fall and Spring enrollment reports and as documented by the school district's enrollment records. **An example of an enrollment schedule format that is recommended by OPI is included on the following page. Another recommended format can be found in the audit letter at <http://www.opi.mt.gov/PUB/PDF/SchoolFinance/Audit/2007Auditltr.pdf> )** **These supplemental schedule formats are also available on diskette by calling OPI at 444-3024 or via e-mail at 'drosenthal@mt.gov'.**

**(Note:** If a discrepancy is noted between the district's records and reports filed with OPI, please notify OPI at telephone number (406) 444-4401, and then ask the district to submit a revised Fall and/or Spring Enrollment Report to OPI showing the original reported amounts and adjustments.)

Supplemental Schedule  
School District Number XX  
XXXXXX County  
XXXXXX, Montana

SCHEDULE OF ENROLLMENT  
For the Year Ended June 30, 20XX

	Per Enrollment Reports	Audit Per District Records	Difference
<b>Fall Enrollment – October, 20XX</b>			
<u>Elementary School District</u>			
<b>PreK-6:</b>			
(a) Pre-Kindergarten	XXXXXX	XXXXXX	XXXX
(b) Kindergarten- Half (enrolled 180 – 360 hours per year)	XXXXXX	XXXXXX	XXXX
(c) Kindergarten - Half (enrolled <180 hours per year)	XXXXXX	XXXXXX	XXXX
(d) Grades K(Full) - 6 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(e) Grades K(Full) - 6 (enrolled 180-359 hours per year)	XXXXXX	XXXXXX	XXXX
(f) Grades K(Full) - 6 (enrolled <180 hours per year)	XXXXXX	XXXXXX	XXXX
<b>7-8:</b>			
(g) Grades 7-8 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(h) Grades 7-8 (enrolled 180-359 hours per year)	XXXXXX	XXXXXX	XXXX
(i) Grades 7-8 (enrolled <180 hours per year)	XXXXXX	XXXXXX	XXXX
(j) Total Elementary (add lines a thru i)	XXXXXX	XXXXXX	XXXX
<u>High School District 9-12:</u>			
(k) Grades 9-12 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(l) Grades 9-12 (enrolled 180-359 hours per year)	XXXXXX	XXXXXX	XXXX
(m) Grades 9-12 (enrolled <180 hours per year)	XXXXXX	XXXXXX	XXXX
(n) Total High School (add lines k thru m)	XXXXXX	XXXXXX	XXXX
(o) 19 Year-olds included on line k	XXXXXX	XXXXXX	XXXX
(p) Job Corps Students (included on lines k thru m)	XXXXXX	XXXXXX	XXXX
<b>Spring Enrollment – February, 20XX</b>			
<u>Elementary School District</u>			
<b>PreK-6:</b>			
(q) Pre-Kindergarten	XXXXXX	XXXXXX	XXXX
(r) Kindergarten - Half (enrolled 180 - 360 hours per year)	XXXXXX	XXXXXX	XXXX
(s) Kindergarten - Half (enrolled <180 hours per year)	XXXXXX	XXXXXX	XXXX
(t) Grades K(Full) - 6 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(u) Grades K(Full) - 6 (enrolled 180-359 hours per year)	XXXXXX	XXXXXX	XXXX
(v) Grades K(Full) - 6 (enrolled <180 hours per year)	XXXXXX	XXXXXX	XXXX
<b>7-8:</b>			
(w) Grades 7-8 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(x) Grades 7-8 (enrolled 180-359 hours per year)	XXXXXX	XXXXXX	XXXX
(y) Grades 7-8 (enrolled <180 hours per year)	XXXXXX	XXXXXX	XXXX
(z) Total Elementary (add lines q thru y)	XXXXXX	XXXXXX	XXXX
<u>High School District 9-12:</u>			
(aa) Grades 9-12 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(bb) Grades 9-12 (enrolled 180-359 hours per year)	XXXXXX	XXXXXX	XXXX
(cc) Grades 9-12 (enrolled <180 hours per year)	XXXXXX	XXXXXX	XXXX
(dd) Total High School (add lines aa thru cc)	XXXXXX	XXXXXX	XXXX
(ee) 19 Year-olds included on line aa	XXXXXX	XXXXXX	XXXX
(ff) Early Graduates	XXXXXX	XXXXXX	XXXX
(gg) Job Corps Students (included on lines k thru m)	XXXXXX	XXXXXX	XXXX

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET**

#### **BASE FUNDING:**

##### **1. Compliance Requirements:**

- The basic and per-ANB entitlements, as explained below, along with the district's special education funding (which is discussed in more detail in a subsequent compliance program), define the BASE (Base Amount for School Equity) and Maximum general fund budget limits. The BASE also includes the quality educator payment, the total at-risk student payment, the Indian education for all payment, and the American Indian achievement gap payment. (MCA 20-9-306)
- The BASE budget for the district must be financed by the following sources of revenue:
  - a. state equalization aid, as provided in 20-9-343, including any guaranteed tax base aid for which the district may be eligible, as provided in 20-9-366 through 20-9-369;
  - b. county equalization aid, as provided in 20-9-331 and 20-9-333;
  - c. a district levy for support of a school not approved as an isolated school under the provisions of 20-9-302;
  - d. payments in support of special education programs under the provisions of 20-9-321;
  - e. nonlevy revenue, as provided in 20-9-141; and
  - f. a BASE budget levy on the taxable value of all property within the district.
 (MCA 20-9-308(3))

#### **Suggested Audit Procedure:**

**NONE**

OPI extensively monitors the BASE funding program as part of the school districts' budget approval process.

#### **PER-ANB ENTITLEMENT:**

##### **2. Compliance Requirements:**

- Total per-ANB entitlement is defined as the district entitlement resulting from the following calculations:
  - a. for a high school district, or a K-12 district high school program, a maximum rate of **\$5,704 for fiscal year 2007, \$5,861 for fiscal year 2008, and \$6,037 for each succeeding fiscal year** for the first ANB, decreased at the rate of 50 cents per ANB for each additional ANB of the district up through 800 ANB, with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB;

REVISION DATE: 6/30/2008



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **PER-ANB ENTITLEMENT – continued:**

#### **2. Compliance Requirements - continued:**

- b. for an elementary school district, or a K-12 district elementary program without an approved and accredited junior high school, 7<sup>th</sup> and 8<sup>th</sup> grade program, or middle school, a maximum rate **\$4,456 for fiscal year 2007, \$4,579 for fiscal year 2008, and \$4,716 for each succeeding fiscal year** for the first ANB, decreased at the rate of 20 cents per ANB for each additional ANB of the district up through 1,000 ANB, with each ANB in excess of 1,000 receiving the same amount of entitlement as the 1,000th ANB; and
    - c. for an elementary school district, or a K-12 district elementary program with an approved and accredited junior high school, 7<sup>th</sup> and 8<sup>th</sup> grade program, or middle school, the sum of:
      - (i) a maximum rate of **\$4,456 for fiscal year 2007, \$4,579 for fiscal year 2008, and \$4,716 for each succeeding fiscal year** for the first ANB for kindergarten through grade 6, decreased at the rate of 20 cents per ANB for each additional ANB up through 1,000 ANB, with each ANB in excess of 1,000 receiving the same amount of entitlement as the 1,000th ANB; and
      - (ii) a maximum rate of **\$5,704 for fiscal year 2007, \$5,861 for fiscal year 2008, and \$6,037 for each succeeding fiscal year** for the first ANB for grades 7 and 8, decreased at the rate of 50 cents per ANB for each additional ANB for grades 7 and 8 up through 800 ANB, with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB.
- (MCA 20-9-306(14))
- A district that anticipates an unusual increase in enrollment in the ensuing school fiscal year, as provided for in MCA 20-9-313(1)(d), may increase its basic entitlement and total per-ANB entitlement for the ensuing school fiscal year as discussed in MCA 20-9-314.

#### **Suggested Audit Procedure:**

**NONE**

The per-ANB entitlement is calculated and monitored by OPI.

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## COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

### GENERAL FUND BUDGET - continued

#### BASIC ENTITLEMENT:

#### 3. Compliance Requirement:

- The basic entitlement for school districts is:
  - ▶ For each high school district: **\$230,199 for fiscal year 2007, \$236,552 for fiscal year 2008, and \$243,649 for each succeeding fiscal year,**
  - ▶ For each elementary school district or K-12 district elementary program without an approved and accredited junior high school, 7<sup>th</sup> and 8<sup>th</sup> grade program or middle school: **\$20,718 for fiscal year 2007, \$21,290 for fiscal year 2008, and \$21,922 for each succeeding fiscal year.**
  - ▶ For each elementary school district or K-12 district elementary program with an approved and accredited junior high school, 7<sup>th</sup> and 8<sup>th</sup> grade program, or middle school: (**Note:** the previous prorated provisions of this section of law were removed and replaced by the following, effective for FY2008)
    - a. For kindergarten through grade 6 elementary program: **\$21,290 for fiscal year 2008, and \$21,922 for each succeeding fiscal year; plus**
    - b. For an approved and accredited junior high school program, 7<sup>th</sup> and 8<sup>th</sup> grade program, or middle school: **\$60,275 for fiscal year 2008 and \$62,083 for each succeeding fiscal year.**

(MCA 20-9-306(6))

#### Suggested Audit Procedure:

NONE

The basic entitlement is calculated and monitored by OPI.

#### DIRECT STATE AID:

#### 4. Compliance Requirements:

- Direct state aid is defined as 44.7% of the basic entitlement and 44.7% of the total per-ANB entitlement for the general fund budget of a district. It is funded with state and county equalization aid. (MCA 20-9-306(8))
- **County Equalization** - The county commissioners of each county must levy:
  - a. an annual basic county tax of **33 mills** for the purposes of **elementary** equalization and state BASE funding program support, (MCA 20-9-331) and
  - b. an annual basic county tax of **22 mills** for the purposes of **high school** equalization and state BASE funding program support. (MCA 20-9-333)

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **DIRECT STATE AID - continued:**

#### **4. Compliance Requirements - continued:**

- **State Equalization:** The county commissioners of each county, in addition to the above tax levies, must levy annually a tax of **40 mills** for state equalization aid to support the BASE funding program. The tax must be levied on all property except property for which a tax or fee is required as listed in MCA 20-9-360 (pertaining to recreational vehicles, motor vehicles and aircraft). (MCA 20-9-360 & 343)
- The revenues from the county's 33-mill elementary equalization levy, and the revenues from the following sources, are used for the equalization of the elementary BASE funding program of the county:
  - a. federal Taylor Grazing Act funds distributed to a county and designated for the elementary county equalization under the provisions of MCA 17-3-222;
  - b. federal Flood Control Act funds distributed to a county and designated for expenditure for the benefit of the county common schools under the provisions of MCA 17-3-232;
  - c. all money paid into the county treasury as a result of fines for violations of law, except money paid to a justice's court, and the use of which is not otherwise specified by law; (**Note:** It appears that there may no longer be any such fines that are required to be deposited into the county treasury – see MCA 46-18-235 – most fines are now remitted to the State.)
  - d. any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's accounts for the various sources of revenues established or referred to in MCA 20-9-331;
  - e. any federal or state money distributed to the county as payment in lieu of property taxation, including federal forest reserve funds allocated under the provisions of MCA 17-3-213;
  - f. gross proceeds taxes from coal under MCA 15-23-703; and
  - g. oil and natural gas production taxes as provided in MCA 15-36-324.  
(MCA 20-9-331(2))
- The revenues from the county's 22-mill high school equalization levy, and the revenues from the following sources, are used for the equalization of the high school BASE funding program of the county:
  - a. any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's accounts for the various sources of revenues established or referred to in MCA 20-9-333;
  - b. any federal or state money distributed to the county as payment in lieu of property taxation, including federal forest reserve funds allocated under MCA 17-3-213;

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **DIRECT STATE AID - continued:**

#### **4. Compliance Requirements - continued:**

- c. gross proceeds taxes from coal under MCA 15-23-703; and
  - d. oil and natural gas production taxes as provided in MCA 15-36-324.  
(MCA 20-9-333(2))
- All monies collected for county equalization and state equalization are deposited into the State's general fund and disbursed by OPI. OPI must make the following BASE aid payments by the last working day of each month:
  - a. from August to October, 10% of the direct state aid payment is disbursed to each district;
  - b. from December to April, 10% of the direct state aid payment is disbursed to each district;
  - c. in November, 50% of the guaranteed tax base (GTB) aid payment is disbursed to each district or county that has submitted a final budget to the superintendent of public instruction in accordance with the provisions of MCA 20-9-134;
  - d. in May, the remainder of the GTB aid payment is disbursed to each district or county;
  - e. in June, the remaining payment of direct state aid is disbursed to each district.

**(Note:** The payments for Quality Educator, At-Risk Student, Indian Education For All, and American Indian Achievement Gap are paid to each district on the same basis as payments for direct state aid are made, as discussed above.)  
(MCA 20-9-344)

#### **Suggested Audit Procedure:**

**NONE**

Direct state aid is calculated by OPI and automatically checked for accuracy on the districts trustees' financial summary report (revenue source 3110).

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **BASE & MAXIMUM GENERAL FUND BUDGET:**

(**Note:** The **BASE budget** is defined as the minimum general fund budget of a district, which includes 80% of the basic entitlement, 80% of the total per-ANB entitlement, 100% of the total quality educator payment, 100% of the total at-risk student payment, 100% of the total Indian education for all payment, 100% of the total American Indian achievement gap payment, and 140% of the special education allowable cost payment. The **maximum general fund budget** is defined as a district's general fund budget amount calculated from the basic entitlement for the district, the total per-ANB entitlement for the district, the total quality educator payment, the total at-risk student payment, the total Indian education for all payment, the total American Indian achievement gap payment, and the greater of 175% of special education allowable cost payments or the ratio, expressed as a percentage, of the district's special education allowable cost expenditures to the district's special education allowable cost payment for the fiscal year that is 2 years previous, with a maximum allowable ratio of 200%. (MCA 20-9-306 & 308(1))

#### **5. Compliance Requirements:**

- The trustees of a district must adopt a general fund budget that is at least equal to the BASE budget established for the district (**prior to April 10, 2007** and, except as provided in MCA 20-9-308(3), does not exceed the maximum general fund budget established for the district.) **Effective April 10, 2007**, The trustees may adopt a general fund budget up to the maximum general fund budget or the previous year's general fund budget, whichever is greater. (MCA 20-9-308(1)).
- The trustees of the district may increase the budget within limits described in MCA 20-9-308. Whenever the trustees of a district propose to adopt a general fund budget that exceeds the BASE budget for the district and to increase the over-BASE budget levy to support the general fund budget, the trustees shall submit a proposition to the electors of the district, as provided in MCA 20-9-353. (MCA 20-9-308 & 20-9-353)
- For an elementary or high school district that has been in existence for 3 years or more, the district's maximum general fund budget and BASE budget for the ensuing school fiscal year must be calculated using the current year ANB for all budget units or the 3-year average ANB for all budget units, whichever generates the greatest maximum general fund budget. For a K-12 district that has been in existence for 3 years or more, the district's maximum general fund budget and BASE budget for the ensuing school fiscal year must be calculated separately for the elementary and high school programs and then combined. (MCA 20-9-311(12))

#### **Suggested Audit Procedures:**

(The BASE and maximum general fund budgets are monitored by OPI.)

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **BASE & MAXIMUM GENERAL FUND BUDGET - continued:**

##### **5.     Suggested Audit Procedures - continued:**

- Determine if the District's budget required the trustees to submit a proposition to the electors of the district (i.e. review the Final Budget document and determine if the line-item "Budget Approved by Voters" contains a dollar amount). If so, verify that any voted amount was actually approved by the electors. An election certificate should be available to verify this voted amount.

#### **GUARANTEED TAX BASE AID:**

##### **6.     Compliance Requirements:**

- Guaranteed Tax Base (GTB) aid is a function of a school district's prior year taxable valuation and the district's current year BASE budget, direct state aid and state special education allowable cost payment. Each school district may receive GTB aid in support of up to 35.3% of the basic entitlement, up to 35.3% of the total per-ANB entitlement, and up to 40% of the special education allowable cost payment budgeted within the general fund. (MCA 20-9-306, 20-9-321, & 20-9-367)
- If the county retirement mill value per elementary or high school ANB is less than the corresponding statewide mill value per elementary or high school ANB, the county may receive GTB aid based on the number of mills levied in the county in support of the retirement fund budgets of the respective elementary or high school districts in the county. The amount of GTB aid per ANB that a county may receive in support of the retirement fund budgets of the elementary and high school districts in the county is the difference between the county mill value per elementary ANB, or high school ANB, and the statewide mill value per elementary ANB, or high school ANB, multiplied by the number of mills levied in support of the respective retirement fund budgets. (MCA 20-9-367 & 368)
- If the district mill value per elementary ANB or per high school ANB is less than the corresponding statewide mill value per elementary ANB or per high school ANB, the district may receive a state advance or reimbursement for school facilities in support of the debt service fund. (MCA 20-9-367)

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **GUARANTEED TAX BASE AID - continued:**

##### **6. Suggested Audit Procedures:**

(GTB is calculated and disbursed by OPI.)

- OPI has indicated that the correct calculation and distribution of GTB in the general fund depends on the following items, which the auditor should verify.
  - a. Verify that the number of mills shown on the general fund's final budget equals the number of mills actually levied.
  - b. The number of mills levied depends on proper reporting of actual non-levy revenues in the general fund. Determine that the non-levy revenues for the general fund were accurately coded and reported on the Trustees Financial Summary (TFS).
  - c. Verify that the general fund reserves listed on the budget form are accurate. "Excess" reserves (line-item numbers 962 - 966) must be supported by adequate documentation. Overstated reserves would potentially cause overpayment of GTB. (**Note:** If a county or district receives more GTB aid than it is entitled to, the excess must be returned to the state as required by MCA 20-9-344. (MCA 20-9-368(4)))
- Determine that the amount of GTB revenue (revenue code 3120) recorded in the general fund and reported on the trustees financial summary is equal to the amount of GTB revenue on the "MAEFAIRS" budget document for the district and on transmittal letters from OPI.

#### **ADDITIONAL GENERAL FUND PAYMENTS**

##### **7. Compliance Requirements:**

The state shall provide the following payments to public school districts.

- The **Quality Educator payment** is \$2,000 for fiscal year 2007, \$3,036 for fiscal year 2008, and \$3,042 for each succeeding fiscal year, times the number of full-time equivalent educators, as reported to OPI for accreditation purposes in the previous school year. (MCA 20-9-327 & 20-9-306)
- The **At-Risk Student payment** is prorated to each school district based upon the available appropriation and each district's Title I allocation. (MCA 20-9-328)

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **ADDITIONAL GENERAL FUND PAYMENTS - continued**

##### **7. Compliance Requirements - continued:**

- The **Indian Education For All payment** is the greater of \$100 for each district or \$20.40 for each ANB. This payment may be expended only for curriculum development, providing curriculum and materials to students, and providing training to teachers about the curriculum and materials. Districts must report annually to OPI as to how these funds were expended. (MCA 20-9-329 & 20-9-306) (**Note:** this ongoing payment is not to be confused with the one-time-only Indian Education for All payment which is to be deposited in the Miscellaneous Programs fund.)
- The **American Indian Achievement Gap payment** is \$200 for each American Indian student enrolled in the district based on the count of regularly enrolled students on the first Monday in October of the prior school year as reported to OPI. (MCA 20-9-330 & 20-9-306)

(**Note:** The payments for Quality Educator, At-Risk Student, Indian Education For All, and American Indian Achievement Gap are paid to each district on the same basis as payments for direct state aid are made. See Compliance Requirement No. 4, above)

##### **Suggested Audit Procedures:**

- **NONE** – OPI verifies that these payments are properly deposited and reported in the general fund. In addition, OPI has indicated that auditors do not need to verify Indian student counts.

### **SPECIAL EDUCATION**

##### **8. Compliance Requirement: Special Education Allowable Cost Payment**

- OPI determines and distributes the special education allowable cost payments to each school district and cooperative with a special education program as follows: (MCA 20-9-321(4))
  - a. An **instructional block grant** is awarded to each school district, based on the district ANB and the per-ANB special education instructional amount; and
  - b. A **special education related services block grant** is awarded to each school district that is not a cooperative member, based on the district ANB and the per-ANB special education-related services amount. The special education related services block grant amount for districts that are members of approved special education cooperatives or a joint board must be awarded to the cooperatives or joint board.







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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **SPECIAL EDUCATION - continued:**

#### **10. Compliance Requirements - continued:                      Special Ed Funding Reversion**

- Revisions to the annual trustees' financial summary report made by the district after the district's audit report for that fiscal year is issued, or after December 20 of the ensuing fiscal year, if later, will not be considered in calculating the reversion amount. OPI may accept the adjustments after these dates for unusual circumstances. (ARM 10.16.3817)

#### **Suggested Audit Procedure:**

**NONE**

OPI monitors the reversion requirements using expenditure information from the trustees' financial summary.

#### **11. Compliance Requirements:    Special Ed Allowable Costs**

- Special Education Allowable Costs - **Instructional Block Grant** - Allowable costs associated with instruction of students with disabilities include:
  - a. salaries and benefits of qualified special education teachers, regular teachers, and teacher aides, for the proportion of time spent providing services to students with disabilities;
  - b. teaching supplies and textbooks necessary to implement a student's individualized education program (IEP);
  - c. the purchase, rental, repair, and maintenance of instructional equipment required to implement an IEP;
  - d. activities associated with teacher assistance teams that provide pre-referral intervention;
  - e. contracted services, including fees paid for professional advice, training, and consultation regarding special students or the special program, and the delivery of special education services by public or private agencies;
  - f. transportation costs for special education instructional personnel who travel on an itinerant basis from school to school or district to district or to in-state evaluation team meetings or in-state IEP meetings, or other travel as listed in ARM 10.16.3806(f);
  - h. payments made to a special education cooperative for instructional services. (MCA 20-7-431(1)(a), MCA and ARM 10.16.3806)

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **SPECIAL EDUCATION - continued:**

#### **11. Compliance Requirements - continued:                      Special Ed Allowable Costs**

- **Special Education Allowable Costs - Related Services Block Grant** - Allowable costs associated with the provision of related services to students with disabilities include:
  - a. salaries and benefits of professional supportive personnel, corresponding to the working time that each person devotes to the special program. Professional supportive personnel may include special education supervisors, speech-language pathologists, audiologists, counselors, social workers, psychologists, psychometrists, physicians, nurses, and physical and occupational therapists.
  - b. salaries and benefits of clerical personnel who assist professional personnel in supportive services, corresponding to the working time that each person devotes to the special program;
  - c. supplies for special programs;
  - d. activities associated with teacher assistance teams that provide pre-referral interventions;
  - e. contracted services, including fees paid for professional advice and consultation regarding special students or the special program, and the delivery of special education services by public or private agencies;
  - f. transportation costs for special education related services personnel who travel on an itinerant basis from school to school or district to district or to in-state evaluation team meetings or in-state IEP meetings, or other travel as listed in ARM 10.16.3807(g);
  - g. equipment purchase, rental, repair, and maintenance required to implement a student's IEP;
  - h. the additional cost of special education cooperatives or joint boards, including operation and maintenance, travel, recruitment, and administration;
  - i. payments made to a cooperative for the provision of related services.

(MCA 20-7-431 and ARM 10.16.3807)
- Allowable costs as stated above do **not** include the costs of the teachers' retirement system, the public employees' retirement system, the federal social security system; or unemployment compensation insurance; the cost of any administrative, instructional or teacher aide personnel necessary to meet Montana school accreditation standards; salaries and benefits for transportation aides employed for assisting students with disabilities; the on-schedule and over-schedule costs of transportation for special education purposes; the cost of administrative support personnel, such as clerks and clerical personnel (with the exception of ARM 10.16.3807(1)(c) and 10.16.3808(1)(a)); and any overhead costs of operations and maintenance. (MCA 20-7-431(4); ARM 10.16.3805(1)))



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **SPECIAL EDUCATION - continued:**

#### **12. Compliance Requirements - continued:                      Special Ed Tuition Charges**

- b. Option B - The actual unique costs of services provided to the student ages 3 to 21 as per the individualized education program (IEP), minus the state's share of the maximum per ANB entitlement and per ANB special education block grants received by the district, may be added to the rate in ARM 10.10.301 (maximum regular education tuition rate as discussed above) if the county superintendent determines all of the following factors are present: (i) the allowable special education costs for that student exceed the rate determined under Option A; and (ii) the costs are for special education and related services unique to the student, excluding the costs for removal of architectural barriers.  
(ARM 10.10.301 and 10.16.3818)
- The tuition payments must be made to the county treasurer in each county with a school district that is entitled to tuition. The county treasurer shall credit tuition receipts to the General Fund of a school district entitled to a tuition payment.  
**Exceptions** are as follows:
  - a. Any tuition receipts received under the provisions of MCA 20-5-323(3) for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district's miscellaneous programs fund and must be used for that year in the manner provided for in MCA 20-9-507 to support the costs of the program for which the tuition was received.
  - b. Any tuition receipts received for the current school fiscal year for a pupil who is a child with a disability that exceed the tuition amount received for a pupil without disabilities may be deposited in the district miscellaneous programs fund and must be used for that year in the manner provided for in MCA 20-9-507 to support the costs of the program for which the tuition was received.
  - c. Any other tuition receipts received for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district miscellaneous programs fund and may be used for that year in the manner provided for in that fund. For the ensuing school fiscal year, the receipts must be credited to the district general fund budget.  
(MCA 20-5-324(5) & (6))

#### **Suggested Audit Procedures:**

- Verify that tuition charged by the district is in compliance with ARM 10.10.301 and 10.16.3818.
- Verify that tuition received was deposited in the district's General fund, unless the tuition is one of the exceptions noted above.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **SPECIAL EDUCATION - continued:**

#### **12. Suggested Audit Procedures - continued:**

- Verify that tuition received and deposited in the miscellaneous program fund is spent by June 30 or closed to the general fund.

#### **13. Compliance Requirements: Special Ed Cooperative or Interlocal Agreement**

- When a district participates in a cooperative or enters into an interlocal agreement with another district for special education services, the district may pay its state special education allowable cost payment, required block grant match, and any other additional costs of provided services to the cooperative or district on a reimbursement basis. The payment must be deposited to the miscellaneous programs fund (fund number 15) or the interlocal agreement fund (fund number 82) of the district providing services, or to the interlocal agreement fund of the cooperative providing services. The receipt and payment must be identified in the accounting records using a separate project reporter number, which identifies the special education agreement. (ARM 10.16.3815)
- When a cooperative contracts with a member district to provide special education instructional and related services:
  - a. the payments received by a district from a cooperative must be deposited in the district's miscellaneous programs fund or interlocal agreement fund and
  - b. the receipt and expenditure of the money must be identified on the accounting records using a separate project reporter number (which identifies the special education agreement).
  - c. Any amounts received by the district from the cooperative but not obligated for the special education purposes outlined in the contract must be returned to the paying cooperative by June 30th and recorded as revenue abatement by the district providing the service and as expenditure abatement by the cooperative. (ARM 10.16.3815)

**(Note:** There should be a written contract for services to be provided by the member district.)

#### **Suggested Audit Procedures:**

- Determine whether the district participates in a special education cooperative or has entered into an interlocal agreement with another district for special education services.
- If so, determine whether the district was to receive payments from another district or the cooperative for special education services.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL FUND BUDGET - continued**

#### **SPECIAL EDUCATION - continued:**

##### **13. Suggested Audit Procedures - continued:**

- Determine that any payments were credited to the district's miscellaneous programs fund and/or interlocal agreement fund, properly accounted for as described above, and used for special education purposes.
- If amounts received from a cooperative for special education purposes were not obligated for such purposes by June 30, determine that they were returned to the cooperative and recorded on the district's records as a revenue abatement.

### **TRANSPORTATION FUND BUDGET**

**(Note to Auditor: OPI monitors the accuracy of transportation fund budget calculations and State and county reimbursements. OPI would like auditors to verify the accuracy of information submitted to OPI on the following forms: TR-1 (bus route reimbursement form), TR-4 (individual transportation contract form), TR-5 (claim form for individual transportation), and TR-6 (claim form for bus route reimbursement))**

##### **1. Compliance Requirements:**

##### **Mileage Rates**

- The following mileage rates for school transportation constitute the maximum reimbursement to districts for school bus transportation from state and county sources of transportation revenue under the provisions of MCA 20-10-145 and 20-10-146. These rates may not limit the amount that a district may budget in its transportation fund budget in order to provide for the estimated and necessary cost of school transportation during the ensuing school fiscal year.
  - a. All bus miles traveled on bus routes approved by the county transportation committee are reimbursable. A district may approve additional bus or nonbus miles within its own district or approved service area but may not claim reimbursement for the mileage.
  - b. Nonbus mileage is reimbursable for a vehicle driven by a bus driver to and from an overnight location of a school bus when the location is more than 10 miles from the school.
  - c. Any bus for which reimbursement is made under the rate provisions of the following schedule must be a school bus as defined in MCA 20-10-101(4).
  - d. Reimbursement is not authorized for bus transportation provided for pupils who live less than three miles from school unless the pupils have transportation listed as a related service on individualized education plans (IEPs).



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TRANSPORTATION FUND BUDGET - continued**

#### **1. Compliance Requirements - continued:**

#### **Mileage Rates**

- e. The rate per bus mile traveled must be determined in accordance with the following schedule:
  - i. 95 cents for a school bus with a rated capacity of not more than 49 passenger seating positions;
  - ii. \$1.15 for a school bus with a rated capacity of 50 to 59 passenger seating positions;
  - iii. \$1.36 for a school bus with a rated capacity of 60 to 69 passenger seating positions;
  - iv. \$1.57 for a school bus with a rated capacity of 70 to 79 passenger seating positions;
  - v. \$1.80 for a school bus with 80 or more passenger seating positions, and
  - vi. Nonbus mileage, as described in b. above, must be reimbursed at a rate of 50 cents a mile.

(MCA 20-10-141; ARMs 10.7.110, 10.7.112, and 10.7.115)
- The rated capacity is the number of passenger seating positions of a school bus as determined under the policy adopted by the board of public education. If modification of a school bus to accommodate pupils with disabilities reduces the rated capacity of the bus, the reimbursement to a district for pupil transportation is based on the rated capacity of the bus prior to modification. The number of pupils riding the school bus may not exceed the passenger seating positions (i.e., rated capacity) of the bus.  
(MCA 20-10-141)
- Form TR-1 (Combined School District Application for Registration of School Bus and State Reimbursement) must be completed by the board of trustees for each approved bus route in the district. Two copies of Form TR-1 for each route are sent to the county school superintendent by October 1, who must forward one copy to OPI for approval by October 15. (ARM 10.7.118)
- Form TR-6 (School District Claim for Reimbursement for School Bus Transportation) must be completed by the board of trustees and sent to the county school superintendent by February 1 (for first semester) and by May 10 (for second semester). The county superintendent must then send the forms to OPI by February 15 (first semester) and May 24 (second semester). After notifying the school district and county superintendent of the approved reimbursement amount, OPI sends a payment to the county treasurer, with a list of districts and the amount each district is to receive. (ARM 10.7.118)



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TRANSPORTATION FUND BUDGET - continued**

#### **2.     Compliance Requirements - cont:                    Individual Transportation Reimbursement**

- c. if a parent transports two or more eligible transportees to a school and a bus stop that are located within 3 miles of one another, the total reimbursement must be determined under the provisions of this subsection and must be divided equally between the district operating the school and the district operating the bus;
- d. if a parent transporting two or more eligible transportees to a school or bus stop must, because of varying arrival and departure times, make more than one round-trip journey to the bus stop or school, the total reimbursement allowed by this section is limited to one round trip per day for each scheduled arrival or departure time;
- e. notwithstanding the provisions of “a” through “d” above, a reimbursement may not be less than 35 cents a day.

(MCA 20-10-142(1); ARMs 10.7.113, 10.7.114, and 10.7.115)

- When the parent or guardian transports an eligible transportee or transportees from the residence to a bus stop of a bus route approved by the trustees for the transportation of the transportee or transportees, the total reimbursement per day of attendance is determined by multiplying the distance in miles between the residence and the bus stop by 2, subtracting 6 miles from the product, and multiplying the difference by 35 cents, provided that:
  - a. if the eligible transportees attend schools in different districts but ride on one bus, the districts shall divide the total reimbursement equally (i.e., “shared contract”); and
  - b. if the parent or guardian is required to transport the eligible transportees to more than one bus, the parent or guardian must be separately reimbursed for transportation to each bus.

(MCA 20-10-142(2); ARMs 10.7.113, 10.7.114, and 10.7.115)

- Isolated Transportation - When, because of excessive distances, impassable roads, or other special circumstances of isolation, the rates prescribed above would be an inadequate reimbursement for the transportation costs or would result in a physical hardship for the eligible transportee, a parent or guardian may request an increase in the reimbursement rate. (MCA 20-10-142(3); ARMs 10.7.113, 10.7.114, and 10.7.115)
- The state and county transportation reimbursement for an individual transportation contract may not exceed \$12.95 per day of attendance for the first eligible transportee and \$8.40 per day of attendance for each additional eligible transportee. (MCA 20-10-142(4))

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TRANSPORTATION FUND BUDGET - continued**

#### **2.     Compliance Requirements – cont.:             Individual Transportation Reimbursement**

- Form TR-4 (Individual Transportation Contract) must be completed by the board of trustees and the families of eligible students by the fourth Monday in June. Completed forms must be sent to the county school superintendent by July 1, who must forward the original copy of the form to OPI for approval by July 10. (ARM 10.7.118)
- Form TR-5 (School District Claim for State Reimbursement for Individual and Isolated Transportation) must be completed by the board of trustees and sent to the county school superintendent by February 1 (for first semester) and by May 10 (for second semester). The county superintendent must then send the forms to OPI by February 15 (first semester) and May 24 (second semester). After notifying the school district and county superintendent of the approved reimbursement amount, OPI sends a payment to the county treasurer, with a list of districts and the amount each district is to receive. (ARM 10.7.118)

#### **Suggested Audit Procedures:**

- Verify that payments made by the district are only made to parents of students that are eligible transportees who hold valid TR-4 contracts.
- Verify that the district or county has a system for verifying mileage reported by parents on the TR-4 claim form.
- Verify that districts providing contractual reimbursement for students attending out-of-district are reimbursing only for the mileage to the nearest school or bus stop that could be used.
- Verify a sample of individuals listed on the TR-5 claim form to ensure the days of attendance reported matches pupil attendance records.
- Verify that the state and county transportation reimbursement paid to an individual for an individual transportation contract did not exceed the schedule amounts, except for approved isolation contracts.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TRANSPORTATION FUND BUDGET - continued**

#### **3. Compliance Requirements: Transportation Fund Budget Calculation**

- The trustees of a district furnishing transportation to pupils who are residents of the district shall provide a transportation fund budget that must include:
  - a. an adequate amount to finance the maintenance and operation of district owned and operated school buses;
  - b. the annual contracted amount for the maintenance and operation of school buses by a private party;
  - c. the annual contracted amount for individual transportation, including any increased amount because of isolation, which may not exceed the schedule amounts prescribed in MCA 20-10-142 (as discussed above);
  - d. any amount necessary for the purchase, rental, or insurance of school buses; and
  - e. any other amount necessary to finance the administration, operation, or maintenance of the transportation program of the district, as determined by the trustees.

(MCA 20-10-143(1); ARM 10.7.105 and 10.7.108)

- Budgeted Contingency Amount - The trustees may include a contingency amount in the transportation fund budget for the purpose of enabling the district to fulfill any unforeseen transportation obligations. The budgeted contingency amount may not exceed 10% of the transportation schedule amount as calculated above, or \$100, whichever is larger.

(MCA 20-10-143(2); ARM 10.7.107)

#### **Suggested Audit Procedure:**

(OPI monitors the accuracy of transportation fund budget calculations, and also verifies that the districts include in their budget only an allowable amount for contingency.)

- Verify that Transportation Fund expenditures are made only for costs associated with the program for transporting students to and from school.

#### **In your audit of Transportation Fund expenditures, please note:**

- **Athletic trips, field trips, and other activities trips are not allowable costs of this fund.**
- **If portions of the superintendent's and clerk's salaries and benefits are charged to the Transportation Fund, please audit for reasonableness. The portion of the individuals' time spent on transportation issues should approximate the portion of the salaries charged to the fund.**
- **Only yellow school buses that are used on school bus routes may be purchased through the Transportation Fund. Activities and athletics buses, drivers' education cars, and vehicles intended to be used for employee travel cannot be purchased from this fund.**



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TRANSPORTATION FUND BUDGET - continued**

#### **5.     Compliance Requirements - continued:                      Revenue and Levy Calculations**

When the district has a sufficient amount of fund balance for reappropriation and other sources of district revenue to reduce the total district obligation for financing to zero, any remaining amount of district revenue and fund balance reappropriated must be used to reduce the county financing obligation and, if the county financing obligations are reduced to zero, to reduce the state financial obligation.  
(MCA 20-10-144(1) & (2))

- The district levy requirement for the Transportation Fund must be computed by subtracting the “schedule amount” from the total preliminary transportation budget amount, and then subtracting the money available to reduce the property tax (Requirement No. 4, above). The resulting district levy requirement must be reported to the county commissioners on the fourth Monday of August by the county school superintendent. (MCA 20-10-144)
- The Transportation Fund’s operating reserve may not be more than 20% of the final Transportation Fund budget for the ensuing school fiscal year. (MCA 20-10-144(3)(k)) (**Note:** OPI checks the legal reserve percentages in all funds of each school district. There is no need for this item to be audited for compliance.)

#### **Suggested Audit Procedure:**

(OPI monitors the accuracy of transportation fund budget calculations and State and county reimbursements.)

- Determine if the district has a sufficient amount of cash for reappropriation and other sources of district revenue to reduce the total district obligation for financing to zero. If so, determine that any remaining amount of district revenue and cash reappropriated are first used to reduce the county financing obligation, and then the state financing obligation, as stated above.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TRANSPORTATION FUND BUDGET - continued**

#### **6. Compliance Requirement:            State and County Transportation Reimbursements**

- State Reimbursement: A district providing school bus transportation or individual transportation in accordance with State statutes, Board of Public Education transportation policy, and OPI transportation rules, must receive a state reimbursement of its transportation expenditures under the transportation reimbursement rate provisions of MCA 20-10-141 and 20-10-142 (as discussed above). The state transportation reimbursement is one-half of the reimbursement amounts established in MCA 20-10-141 and 20-10-142, or one-half of the district's transportation fund budget, whichever is smaller, and must be computed on the basis of the number of days the transportation services were actually rendered, not to exceed 180 pupil-instruction days. (MCA 20-10-145)
- County Reimbursement: The apportionment of the county transportation reimbursement by the county superintendent must be the same as the state transportation reimbursement payment (with exceptions noted at MCA 20-10-146(1)). The county treasurer shall make the apportionments after the receipt of the semiannual state transportation reimbursement payments.
- Bus Driver and School Bus Qualifications: If a district operates a bus route in a manner that does not comply with state law, the district shall forfeit the state and county transportation reimbursement for any bus miles actually traveled during that fiscal year in violation of the law. (MCA 20-10-104)
  - ▶ The qualifications of all bus drivers are reviewed at the time the state verification of transportation claims is made, as the qualifications of the bus driver are one of the criteria for eligibility for reimbursement. The State Superintendent will generally not reimburse for routes driven by drivers without a current certificate on file with the Office of Public Instruction. (ARM 10.7.111)
  - ▶ The Montana Highway Patrol is required to perform semiannual inspections of school buses. The first semiannual inspection must be passed prior to the beginning of the first semester. The second semiannual inspection must be passed no later than January 31. Only school buses that pass inspection will receive state and county transportation reimbursement. A school bus that fails to pass inspection will not be eligible for state and county reimbursement until the bus is reinspected and approved by the inspecting officer. The school district is responsible for contacting the Montana Highway Patrol for bus inspections. (ARM 10.7.110)



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TRANSPORTATION FUND BUDGET - continued**

#### **6.     Suggested Audit Procedure:**

(Because OPI monitors the accuracy of transportation fund budget calculations and State and county reimbursements, there are no suggested audit procedures for the first two bulleted items above.)

- Verify that the district received both semi-annual state and county transportation reimbursements. If not, determine if the district forfeited a reimbursement(s) because of non-compliance with bus inspection and/or bus driver certification requirements. [If this is the case, we recommend that an audit finding be prepared for this non-compliance, which generally would be significant to the school district's transportation financing.]

### **BUS DEPRECIATION RESERVE FUND BUDGET**

#### **1.     Compliance Requirements:**

**(Note:** The term “bus” as used here refers to a yellow school bus or a transit-style bus used for athletics and activities.)

- Each district that owns a bus or two-way radio may establish a bus depreciation reserve fund. The reserve fund must be used for the conversion, remodeling, or rebuilding of a bus, for the replacement of a bus or radio, or to purchase additional buses (i.e., yellow school buses). (MCA 20-10-147(1) & (3)) **(Note:** Vans and other non-bus vehicles cannot be purchased through this fund.)
- Whenever a bus depreciation reserve fund is established, the budget may include an amount each year that does not exceed 20% of the original cost of a bus or two-way radio. The amount budgeted, over time, may not exceed 150% of the original cost of a bus or two-way radio. (MCA 20-10-147(2)) **(Note:** Each bus being depreciated must be listed in the budget document.)
- The annual revenue requirement for the bus depreciation reserve fund must be reported by the county superintendent to the county commissioners on the fourth Monday of August, and a levy must be made by the county commissioners in accordance with MCA 20-9-142. (MCA 20-10-147(2))
- Any expenditure of bus depreciation reserve fund moneys must be within the approved budget for the fund. Expenditures may be made only to convert, remodel, or rebuild buses, to replace the buses or radios, or to purchase additional buses (i.e., yellow school buses). (MCA 20-10-147(3)) **(Note:** OPI allows the purchase of surveillance cameras for buses using this fund.)

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **BUS DEPRECIATION RESERVE FUND BUDGET**

#### **1. Compliance Requirements - continued:**

- The accumulative cash balance from all buses can be applied to the purchase price of a new or used replacement bus. (A.G.O. 153, Volume 37) (**Note:** OPI's interpretation of this AGO is that it would also apply to the purchase of an additional new or used yellow school bus)
- Whenever the trustees of a district maintaining a bus depreciation reserve fund sell all of the district's buses and consider it to be in the best interest of the district to transfer any portion of the fund balance to any other district fund, the proposition must first be submitted to the electors of the district. (MCA 20-10-147(4))

#### **Suggested Audit Procedures:**

- Review the budget to ensure that the amount budgeted in the bus depreciation reserve fund for the current year is not more than 20% of the original cost of each bus or radio and that the total amount budgeted, over time, is not more than 150% of the original cost of each bus or radio.
- Review the budget documentation to determine if it includes all buses and radios that are being depreciated.
- Determine that expenditures were made from the depreciation reserve fund only to convert, remodel, or rebuild a bus, to replace a bus or radio, or to purchase an additional yellow school bus for which the bus depreciation reserve fund was created.
- If all district buses have been sold, and a portion of the bus depreciation reserve fund balance has been transferred to another district fund, verify that the transfer was approved by the electors of the district.

### **TUITION FUND BUDGET**

#### **1. Compliance Requirements:**

- When a district is obligated to pay tuition or transportation costs for out-of-district attendance agreements, the tuition must be paid from the district's Tuition Fund, and the transportation costs must be paid from the district's Transportation Fund. (MCA 20-5-324(5); ARM 10.10.301B(9))
- The district may pay tuition and transportation charges in the student's year of attendance or, if the obligation occurs after the district's budget is adopted, in the ensuing year. (MCA 20-5-324(5); ARM 10.10.301B(9))

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TUITION FUND BUDGET**

#### **1. Compliance Requirements - continued:**

- Following the close of each fiscal year, the trustees of a district shall report to OPI the names, districts of attendance, and amount of tuition paid by the district for resident students attending public schools out of state in the previous school year, and shall also report the names, schools of attendance, and amount of tuition to be paid by the district for resident students attending day-treatment programs under approved IEPs at private schools in the previous school year. OPI will determine the total per-ANB entitlement for which the district would have been eligible if these students had been enrolled in the resident district in the prior year, and will reimburse the district of residence for the state portion of the per-ANB entitlement for each student, not to exceed the district's actual payment of tuition or fees for service for the student in the previous year. This reimbursement must be deposited into the district Tuition Fund. (MCA 20-5-324(1), (2) & (7); ARM 10.10.301B)
- **Disposition of other tuition receipts:** Out-of-district tuition revenues must be budgeted in, and credited to, the General Fund. (MCA 20-5-324(6) and 20-9-141)  
Exceptions are as follows:
  - a. Any tuition receipts received under the provisions of MCA 20-5-323(3) for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district's Miscellaneous Programs Fund and must be used for that year in the manner provided for in MCA 20-9-507, to support the costs of the program for which the tuition was received. (**Note:** MCA 20-5-323(3) refers to MCA 20-5-321(1)(d) & (1)(e) which relate to a child under the protective care of a state agency, a child in need of intervention, delinquent youth, or a child placed in foster care or a group home.)
  - b. Any tuition receipts received for the current school fiscal year for a pupil who is a child with a disability that exceed the tuition amount received for a pupil without disabilities may be deposited in the district Miscellaneous Programs Fund and must be used for that year in the manner provided for in MCA 20-9-507, to support the costs of the program for which the tuition was received.
  - c. Any other tuition receipts received for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district Miscellaneous Programs Fund and may be used for that year in the manner provided for in that fund. For the ensuing school fiscal year, the receipts must be credited to the district General Fund budget.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TUITION FUND BUDGET – continued:**

#### **1. Compliance Requirements - continued:**

- Out-of-district tuition agreements (Form FP-14, “Student Attendance Agreement”) must be prepared for each out-of- district attendance that occurs. Out-of-district attendance is either discretionary or mandatory. If district trustees grant discretionary approval, the parent or guardian may be charged tuition and/or transportation. A parent of a child, a state agency, or a court may request mandatory out-of-district attendance. The trustees may waive any or all of the tuition rate, but the waiver must be applied equally to all students with similar situations. (MCA 20-5-320 & 20-5-321)

#### **Suggested Audit Procedure:**

- Review the amount of out-of-district tuition revenue and/or appropriations that were budgeted. If material, test selected copies of the FP-14, "Student Attendance Agreement Form," to determine if appropriations were based on the out-of-district attendance that occurred in the previous or current year.

### **RETIREMENT FUND BUDGET**

#### **1. Compliance Requirements:**

- Only the amount of the employer's contributions to the Teachers’ Retirement System (TRS), the Public Employees’ Retirement System (PERS), the Social Security Administration (FICA), and the Unemployment Compensation Division are to be included in the retirement fund budget. The employees' contributions must not be included. (MCA 20-9-501(2)) (**Note:** Payments to employees, such as early retirement incentives, cannot be made from the retirement fund.)
- Districts may not charge the employers’ share of retirement system costs for employees paid using Federal money (except employees paid from the food services fund or from Medicaid and Impact Aid funds) to the retirement fund. The retirement costs for Federally-paid employees (except as noted) must be charged to the grant that pays the salary. The retirement fund can be used only if the employee’s salary and health-related benefits (insurance), if any, are paid using state or local funds. (MCA 20-9-501(2))
- The retirement fund cannot be used to “buy years of service” for an employee as a benefit. These additional employee contributions to TRS and PERS may be funded either through payroll deductions or charges to the general fund or another fund used to pay the normal payroll of the employee.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **RETIREMENT FUND BUDGET - continued**

#### **Suggested Audit Procedures:**

- Determine if the amount budgeted for retirement in the retirement fund was for only the required employer's contribution.
- Verify that the retirement fund budget was reasonably set based on budgeted salaries. (**Note:** An overstatement of a district's budgeted expenditures may result in state overpayment of GTB in the countywide retirement fund.)
- Determine whether the district had a system in place for restricting the retirement fund usage to include only employees whose salaries and health related benefits (insurance), if any, were paid using state and local funds.
- Verify that the retirement fund was not used to "buy years of service" for an employee. If this situation has occurred, OPI has requested that it be reported in an audit finding, with a recommendation that the district repay the retirement fund for any inappropriate expenditure amount.

#### **2. Compliance Requirement:**

- The district Retirement Fund is funded by an allocation from a county-wide tax levy. The county school superintendent shall establish the county-wide tax levy requirement according to the provisions of MCA 20-9-501. The district retirement fund operating reserve must not exceed 35% of the final retirement fund budget for the ensuing school fiscal year. (MCA 20-9-501)

#### **Suggested Audit Procedure:**

**NONE**

OPI monitors the accuracy of the county reimbursement, and also monitors compliance with the reserve limitation.

### **ADULT EDUCATION FUND BUDGET**

#### **1. Compliance Requirements:**

- A separate Adult Education Fund must be established by the district when an adult education program is operated by the district. The fund must be the depository for all district money received by the district in support of the adult education program, including tuition and fees. Federal and state adult education program money must be deposited in the miscellaneous programs fund. (MCA 20-7-705(2))

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **ADULT EDUCATION FUND BUDGET**

#### **1. Compliance Requirements - continued:**

- Adult education programs are only for students 16 years of age or older who are not regularly enrolled, full-time pupils for the purposes of ANB computation. (MCA 20-7-701) (**Note:** Students enrolled in high school, whether enrolled part-time or full-time, cannot be served using adult education money.)

#### **Suggested Audit Procedures:**

- Review the Adult Education Fund budget and determine that it includes estimated revenues for tuition, fees, and other district moneys to be received by the district in support of the adult education fund. Verify that federal and state adult education program money is not deposited to this fund.
- Review records of the adult education program to ensure that the program only serves persons 16 or older who are not regularly enrolled students.

#### **2. Compliance Requirements:**

- The trustees of a district may authorize the levy of a tax on the taxable value of all taxable property within the district for the operation of an adult education program. (MCA 20-7-705(3))
- The adult education fund operating reserve must not exceed 35% of the final adult education fund budget for the ensuing school fiscal year. (MCA 20-7-713)

#### **Suggested Audit Procedure:**

**NONE**

OPI monitors compliance with budget calculations and reserve limitations.

### **NONOPERATING FUND BUDGET**

**(NOTE: OPI monitors nonoperating schools for compliance with legal requirements. The following is presented for your information only.)**

- The purpose of the nonoperating fund is to centralize the financing and budgeting for the limited functions of a district not operating a school. The functions include:
  - a elementary tuition obligations to other districts'
  - b. transportation of the resident pupils;
  - c. maintenance of district-owned property; and
  - d. any other nonoperating school function considered necessary by the trustees or required by law.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **NONOPERATING FUND BUDGET - continued**

- The trustees of a district that will not operate a school during the ensuing school fiscal year shall establish a nonoperating fund on the first day of the school fiscal year. In establishing the nonoperating fund, the trustees shall cause the transfer of the end-of-the-year fund balance of each fund maintained by the district during the immediately preceding school fiscal year to the nonoperating fund. However, fund balances of the debt service fund and the miscellaneous programs fund, if any, must be maintained in their individual funds. (MCA 20-9-505(1))
- The trustees of a district establishing a nonoperating fund for the first year of nonoperation may earmark a portion of the nonoperating fund balance as a nonoperating fund operating reserve when they anticipate the reopening of a school in the following school fiscal year. The operating reserve may not be more than the general fund operating reserve designated for the immediately preceding school fiscal year. (MCA 20-9-505(2))
- If a school is not operated in the following school fiscal year, the authority of the trustees to earmark a nonoperating fund operating reserve terminates and the money earmarked as an operating reserve must be used to reduce the levy requirement of the nonoperating fund. (MCA 20-9-505(2))
- The trustees of any district which does not operate a school or will not operate a school during the ensuing school fiscal year shall adopt a nonoperating school district budget. Such nonoperating budget shall contain the nonoperating fund and, when appropriate, a debt service fund. The net levy requirement is calculated by subtracting from the amount authorized by such budget the sum of:
  - a. the end-of-the-year cash balance of the nonoperating fund or, if it is the first year of nonoperation, the cash balance determined under the transfer provisions of MCA 20-9-505;
  - b. the estimated state and county transportation reimbursements; and
  - c. any other moneys that may become available during the ensuing school fiscal year. (MCA 20-9-506)

## **TECHNOLOGY ACQUISITION AND DEPRECIATION FUND BUDGET**

### **1. Compliance Requirements:**

- The trustees of a district may establish a Technology Acquisition and Depreciation Fund for school district expenditures incurred and depreciation accrued for the purchase, rental, repair, maintenance, and depreciation of technological equipment, including computers and computer network access; and associated technical training for school district personnel. (MCA 20-9-533(1))

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TECHNOLOGY ACQUISITION AND DEPRECIATION FUND BUDGET**

#### **1. Compliance Requirements - continued:**

- The Technology Acquisition and Depreciation Fund may not be used to finance contributions to the teachers' retirement system, the public employees' retirement system, or the federal social security system or for unemployment compensation insurance. (MCA 20-9-533(8))

**(NOTE:** OPI interprets the purpose of the Technology Acquisition and Depreciation Fund to include the payment of salaries and benefits for employees who maintain computers and facilitate access to the Internet and local networks, and employees who train the district staff in use of technology. It would not include salaries and benefits for classroom teachers for district students.)

#### **Suggested Audit Procedures:**

- As part of the testing of general expenditures, verify that expenditures/disbursements, were made only for technology acquisition and the related purposes listed above.
- As part of the testing of payroll, verify that only the salaries and benefits of employees whose positions relate to technology, as described above, are paid from the Technology Acquisition and Depreciation Fund.

#### **2. Compliance Requirements:**

- OPI allocates an annual amount for grants for school technology purchases to each district. The allocation is based on the ratio that each district's BASE budget bears to the statewide BASE budget amount for all school districts. This grant should be deposited to the Technology Acquisition and Depreciation Fund. (MCA 20-9-534)
- The trustees of a school district may submit a proposition to the qualified electors of the district to approve an additional levy to fund the depreciation of technological equipment. The election must be called and conducted in the manner prescribed in Title 20 for school elections and in the manner prescribed by MCA 15-10-425. (MCA 20-9-533(6))
- In depreciating the technological equipment of a school district, the trustees may include in the district's budget, contingent upon voter approval of a levy, an amount each fiscal year that does not exceed 20% of the original cost of any technological equipment, including computers and computer network access, that is owned by the district. The amount budgeted may not, over time, exceed 150% of the original cost of the equipment. (MCA 20-9-533(3))



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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **TECHNOLOGY ACQUISITION AND DEPRECIATION FUND BUDGET**

#### **2.     Compliance Requirements - continued:**

- The District may levy up to the 20% limitation each year, supported by appropriate capital assets records, after having obtained voter approval. Voter approval allows the district to levy each subsequent year, or the number of years may be limited if so stated on the original ballot.

#### **Suggested Audit Procedures:**

- Verify that the annual school technology grant allocation has been deposited to the Technology Acquisition and Depreciation Fund.
- Determine if the district voted a technology levy amount per MCA 20-9-533. If so, verify that the levy amount does not exceed the limits as described above and that depreciation values meet the limits as described.
- Verify the district has a method of accurately tracking asset costs, allowable levies limited to the 20% and 150% restrictions, and that assets are removed from the list when retired or otherwise disposed.

### **SCHOOL FLEXIBILITY FUND BUDGET**

#### **1.     Compliance Requirements:**

- Annually, OPI shall allocate money from the state school flexibility account to each school district. (MCA 20-9-542)
- The trustees of a school district may submit a proposition to the qualified electors of the district to approve a levy for the district's school flexibility fund in an amount not to exceed 25% of the district's allocation of the State school flexibility allocation (as described above) An election must be called and conducted in the manner prescribed by Title 20 for school elections. Money collected from the levy must be deposited in the district's school flexibility fund and spent in accordance with MCA 20-9-543 (as discussed below). (MCA 20-9-544)

#### **Suggested Audit Procedure:**

**NONE**

OPI monitors the school flexibility fund budget for compliance.

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **DEBT SERVICE FUND BUDGET**

#### **1. Compliance Requirements:**

- The debt service fund budget must include an amount necessary to pay the interest and principal (and associated fees) coming due during the ensuing fiscal year. It should also include the amount necessary to pay the special improvement district assessments levied against the school district that become due during the ensuing fiscal year, and a limited operating reserve as described below. (MCA 20-9-438)
- At the end of the fiscal year, the trustees may designate a portion of the end-of-the-year fund balance of the debt service fund to be earmarked as a limited operating reserve for the purpose of paying any debt service fund warrants and bond obligations that must be paid from July 1 through November 30 of the fiscal year following the ensuing fiscal year. (**Note:** The district should not hold a reserve for the July 1 payment if the payment was budgeted and paid in the previous year.) Any portion that is not earmarked must be reappropriated to be used for property tax reduction. (MCA 20-9-438)
- If a district incurs a legal bonded debt payment after the final debt service fund budget for the current fiscal year has been adopted and if payment on the debt is required for the current fiscal year, payment on the debt in the current school fiscal year is allowed if money is available. (MCA 20-9-438)

#### **Suggested Audit Procedures:**

- Review the debt service fund budget document to determine that it includes a sufficient amount to pay the principal and interest coming due during the ensuing fiscal year, plus any special improvement district assessments levied against the district. (**Note:** The budgeted payments should match the bond payment schedule prepared by the bond agent.)
- Determine that the end-of-the-year fund balance is reappropriated to be used for property tax reduction, except for that portion designated as a limited operating reserve.

#### **2. Compliance Requirement:**

- When all of the bond principal, interest, and special improvement district obligations of a school district have been fully paid, all money remaining in the debt service fund and all money that may come into the debt service fund from the payment of the delinquent taxes must be transferred by the county treasurer to the building reserve levy fund, the technology acquisition and depreciation fund, or the general fund as designated by the school district. The transferred money must be expended for

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **DEBT SERVICE FUND BUDGET**

#### **2. Compliance Requirement - continued:**

constructing, equipping, or enlarging school buildings or purchasing land, using a separate project reporter code. [Exception: Any federal impact aid funding remaining in the debt service fund must revert to the district's impact aid fund.] (MCA 20-9-443; ARM 10.10.319(3))

#### **Suggested Audit Procedure:**

- If the district has fully paid all debt obligations, ensure that the debt service fund remaining balances have been transferred to the building reserve, technology or general funds. Verify that a separate project reporter code is being used to track the expenditure of the remaining funds as required above.

### **BUILDING RESERVE FUND BUDGET**

#### **1. Compliance Requirements:**

- The trustees of any district, with the approval of the qualified electors of the district, may establish a building reserve fund for the purpose of raising money for the future construction, equipping, or enlarging of school buildings, for the purpose of purchasing land needed for school purposes in the district, or for the purpose of funding school transition costs authorized by the electorate. (**Note:** Transition costs include the costs of opening a new school, closing a school, replacing a school building, consolidating with or annexing another district, or (effective April 12, 2007) for the purpose of funding transition costs when the electorate has approved the creation of a K-12 district.) In order to submit to the qualified electors of the district a proposition for the establishment of or addition to a building reserve fund, the trustees shall pass a resolution that specifies:
  - a. the purpose or purposes for which the new or addition to the building reserve fund will be used;
  - b. the duration of time over which the new or addition to the building reserve fund will be raised in annual, equal installments;
  - c. the total amount of money that will be raised during the duration of time specified in "b" above; and
  - d. any other statutory requirements under MCA 15-10-425 and 20-20-201, for the calling of a school election. (MCA 20-9-502(1))

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## **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **BUILDING RESERVE FUND BUDGET – continued:**

#### **1. Compliance Requirements - continued:**

- A building reserve fund tax authorization may not be for more than 20 years, except that the duration of the levy for transition costs may not exceed 6 years, (Effective April 12, 2007 - and the duration of a levy for transition costs for the creation of a K-12 district may not exceed 3 years.) (MCA 20-9-502(2), (5)(b) & (6))

#### **Suggested Audit Procedures:**

- Determine if the District maintains a Building Reserve Fund. If so, verify that it was approved by the electorate.
- Determine that the amount raised by the Building Reserve Fund tax each year is in accordance with the proposition approved by the electors.
- Determine that the Building Reserve Fund tax, if applicable, has not been levied for longer than 20 years, 6 years, or 3 years, as discussed above.
- Determine that the Building Reserve Fund has not been imposing a tax levy for a period of time in excess of that stated in the proposition approved by the electors.

#### **2. Compliance Requirement:**

- The trustees of any district maintaining a Building Reserve Fund have the authority to expend moneys from the fund for the purpose or purposes for which it was authorized without such specific expenditures being included in the budget when, in their discretion, there is a sufficient amount of money to commence the authorized projects. Revenue from the building reserve fund levy may also be used for loans from the building reserve fund levy for up to 5 years. Loan proceeds may be used only for projects as discussed in Compliance Requirement No. 1, above. (MCA 20-9-503)

#### **Suggested Audit Procedure:**

- Test expenditures from the Building Reserve Fund and determine that they were for the purpose or purposes for which it was authorized.